

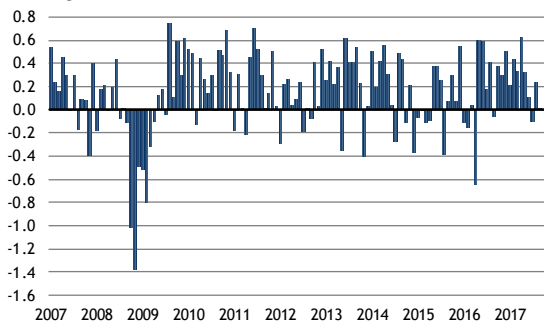
CURRENT TRENDS UPDATE – CANADA

Update - January 9, 2018

Overview and highlights

Real GDP

% change, month-over-month



Source: Statistics Canada

- ▲ Canadian GDP was unchanged in October following a 0.2% increase in September.
- ▲ Canadian employment continued to defy gravity, adding nearly 80 thousand jobs for a second consecutive month in December—the best back-to-back gains in five years.
- ▲ Retail sales jumped 1.5% in October to end a string of 3 subpar monthly reports.
- ▲ As was widely expected, housing starts declined 13.8% in December to an annualized 217k units.
- ▲ Canada's nominal merchandise trade deficit in November unexpectedly rose to \$2.5b from October's \$1.6b.
- ▲ Headline CPI inflation picked up to 2.1% year-over-year from 1.4% in October.

Canadian GDP fell short of expectations with flat October reading

Latest available: October

Release date: December 22, 2017

Canadian GDP was unchanged in October following a 0.2% increase in September. Output of goods producing industries fell 0.4% while services growth returned to a trend-like 0.2% pace. Both were short of our expectations. A decline in non-conventional oil extraction due to maintenance shutdowns shaved about 0.1 percentage point from October's GDP growth. Today's report indicates some downside risk to our forecast for 2.0% annualized growth in Q4. Something along the lines of Q3's 1.7% increase looks more likely.

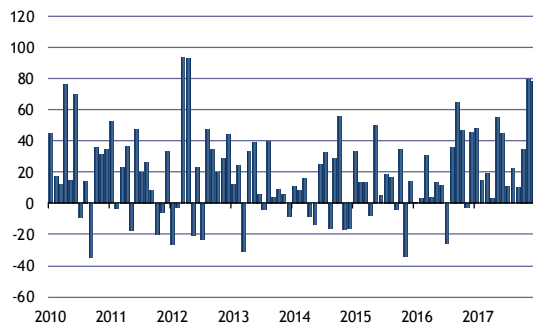
Economy at a glance

	Lastest month	% change from	
		Previous month	Year ago
Real GDP	Oct	0.0	3.4
Industrial production	Oct	-0.6	4.6
Employment	Dec	0.4	2.3
Unemployment rate*	Dec	5.7	6.9
Manufacturing			
Production	Oct	0.1	3.9
Employment	Dec	-0.2	5.1
Shipments	Oct	-0.4	4.3
New orders	Oct	5.3	6.6
Inventories	Oct	1.6	6.1
Retail sales	Oct	1.5	6.7
Car sales	Oct	-2.2	6.9
Housing starts (000s)*	Dec	217.0	205.8
Exports	Nov	3.7	0.0
Imports	Nov	5.8	8.1
Trade balance (\$billions)*	Nov	-2.5	1.1
Consumer prices	Nov	0.3	2.1

* Levels are shown for the latest period and the same period a year earlier.

Employment

Change in thousands, month-over-month



Source: Statistics Canada

Unemployment rate

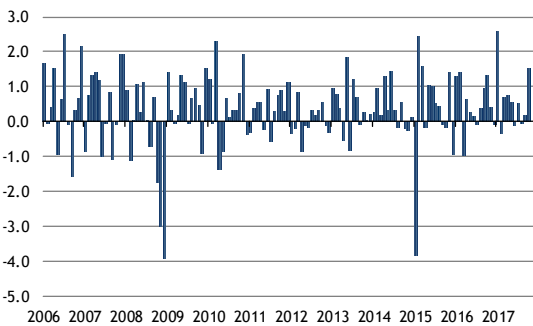
% of labour force



Source: Statistics Canada

Retail sales

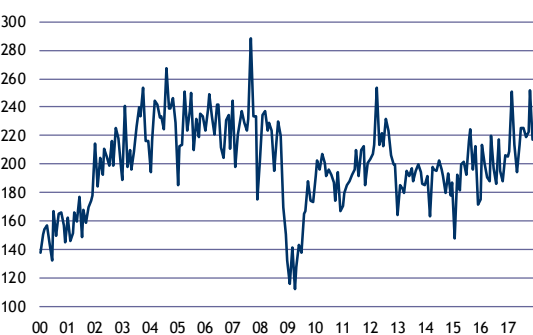
% change, month-over-month



Source: Statistics Canada

Housing starts

Thousands



Source: Canadian Mortgage and Housing Corporation

Another impressive jobs report raises the odds of a BoC move in January

Latest available: December

Release date: January 5, 2018

Canadian employment continued to defy gravity, adding nearly 80 thousand jobs for a second consecutive month in December—the best back-to-back gains in five years. That was pretty much the story of Canada's labour market throughout 2017 with jobs added each and every month to push employment up 422k on the year. That is the largest annual increase since 2002. With labour force participation holding steady—and near all-time highs for the 25-54 population—the unemployment rate dropped more than a percentage point over the course of the year. At 5.7% in December, unemployment is at its lowest rate since the 1970s.

Canadian retail spending bounced back in October

Latest available: October

Release date: December 21, 2017

Retail sales jumped 1.5% in October to end a string of 3 subpar monthly reports. Sale volumes (excluding the impact of prices) rose a similar 1.4% to more than reverse smaller declines over the last three months. Motor vehicle sales jumped 3% in October although sales also rose 0.8% excluding autos. E-commerce sales (not all of which are included in the retail sales totals) were up 19.4% over the past year ending in October. That was much faster than the 7.5% increase in overall retail sales but still down from 40%+ readings earlier this year.

Canadian housing starts moderate in December

Latest available: December

Release date: January 9, 2018

As was widely expected, housing starts declined 13.8% in December to an annualized 217k units from November's outsized 252k with the most recent month's activity more in line with the average level of permits over the last six months of 222k. For 2017 as a whole, starts were up a solid 11.4% to 221k which represented the highest level of activity since 2007. By unit type the December weakness reflected urban multiples dropping 22.0% though this followed strong gains the previous two months of 16.3% and 12.5%. Regionally the weakness was concentrated in Ontario where urban starts dropped 35.1% to 61k largely reflecting weakness in the multiples component. However, the decline failed to fully offset the multiples-driven 67.9% surge in November.

Canada's November trade deficit unexpectedly rises

Latest available: November

Release date: January 5, 2018

Canada's nominal merchandise trade deficit in November unexpectedly rose to \$2.5b from October's \$1.6b. Expectations had been for the deficit to shrink to \$1.1b. The deterioration in the November deficit occurred despite exports rising 3.7% as it was more than offset by an unexpectedly large 5.8% surge in imports indicative of solid domestic demand. The export gain was more narrowly based in motor vehicle and parts along with consumer goods. However, these areas of strength did contribute to non-energy exports rising 2.3% after a 0.8% gain in October.

Rising core inflation just what the BoC wants to see heading into 2018

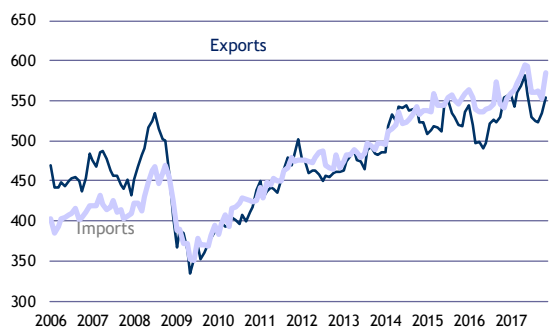
Latest available: November

Release date: December 21, 2017

Headline CPI inflation picked up to 2.1% year-over-year from 1.4% in October. November's was just the fourth reading of 2% or more in the last three years. Higher energy prices accounted for almost 1/2 percentage point of the increase in headline inflation. Core inflation also increased in November with the ex food and energy measure picking up to 1.8% year-over-year, a nine-month high. There wasn't much evidence of steeper Black Friday discounting as prices for clothing and footwear fell by less than in recent years. The decline in home entertainment prices was in line with years past. Two of the Bank of Canada's preferred core measures rose in November. An average of the three hit a one-year high of 1.7% in November.

Merchandise trade

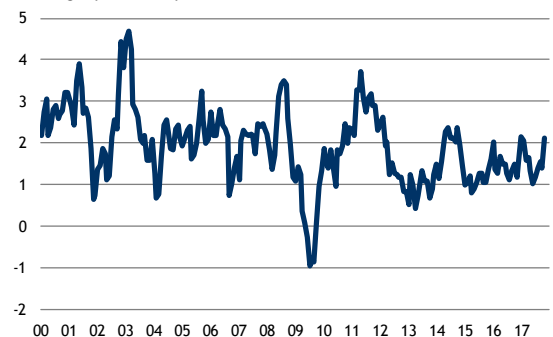
C\$ billions, annualized



Source: Statistics Canada

Consumer price index

% change, year-over-year



Source: Statistics Canada

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